

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF WOODLAND-)
PRESTON ENTERPRISES, INC.,) CASE NO. 8651
FOR AN ADJUSTMENT OF RATES)

ORDER

On September 20, 1982, Woodland-Preston Enterprises, Inc., ("Woodland") filed its application with this Commission to increase its rate pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rate would produce additional revenue of \$1,354 annually, an increase of 102 percent. Based on the determination herein the revenues of Woodland will increase by \$421 annually, an increase of 32 percent.

A hearing was not requested in this matter and in accordance with the provision of the ARF, no hearing was conducted. Therefore, the decision of the Commission is based on information contained in the application, written submissions, annual reports and other documents on file in the Commission's offices.

COMMENTARY

Woodland is a privately-owned sewage treatment system organized and existing under the laws of the Commonwealth of Kentucky, and serving approximately 28 customers in Johnson County.

TEST PERIOD

The Commission has adopted the 12-month period ending December 31, 1981, as the test period for determining the reasonableness of the proposed rate. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

The ARF was established to provide a simplified and less expensive method for small utilities to apply for rate increases with the Commission. Therefore, the financial data from the 1981 Annual Report is used as the basis for determining the revenue requirements. Woodland did not propose any adjustments to its test period revenues and expenses; however, the Commission has made several adjustments to Woodland's test period operating statement to reflect actual and anticipated operating conditions.

Operating Revenue

The actual operating statement of Woodland for the test period reflected operating revenue of \$2,934. In

response to item 3 of the request for information dated October 1, 1982, Woodland indicated that it had included in the test year operating revenues a transfer of cash from a company savings account and the hook-up charges of two homes added to the system during the test year. Therefore, the Commission has reduced operating revenues by \$1,600 to remove these items of non-operating revenue for rate-making purposes. In addition the Commission has increased operating revenue to reflect the normalized annual revenue based on the number of customers at the end of the test year.

Extraordinary Maintenance

During the test period Woodland incurred expenses of \$608 in connection with moving approximately 150 feet of sewer pipe due to a blockage in the line caused by a manhole and cover which had settled. The Commission is of the opinion that this will not be a recurring expense and, therefore, this cost should be amortized over a reasonable period of time. Therefore, the Commission has reduced maintenance expense by \$608 and included amortization expense of \$304 to amortize this cost over a 2-year period for rate-making purposes. The effect of this adjustment is to allow adjusted maintenance expense

of \$535 for the test period which is reasonable in comparison to the maintenance expense incurred by Woodland over the previous 5 years.

Depreciation Expense

The actual operating statement of Woodland for the test period reflected depreciation expense of \$618. In response to items number 1 and 5 of the request for information dated November 4, 1982, Woodland indicated that the total cost of the sewer utility plant had been recovered by the developers through the sale of lots. The developers then donated the sewer utility plant to Woodland. Thus, in effect, the customers of Woodland have paid for the sewer plant through the sales price of the lots. To allow Woodland to include depreciation expense in determining rates in this case would result in the customers of Woodland paying for the utility plant twice, clearly an unfair burden to place upon Woodland's customers. Further, it is not the Commission's policy that Woodland charge its customers for cost it has not incurred, as would be the case if Woodland were allowed to charge its customers for depreciation on contributed property. Therefore, the Commission has excluded depreciation expense for rate-making purposes herein.

Income Taxes

Although Woodland did not propose an adjustment for federal and state income taxes, the Commission has included a

provision of \$50, based on the level of net income allowed herein and the applicable federal and state tax rates.

The Commission finds that Woodland's adjusted test period operations are as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 2,934	\$(1,590)	\$1,344
Operating Expenses	2,470	(872)	1,598
Operating Income	<u>\$ 464</u>	<u>\$ (718)</u>	<u>\$ (254)</u>
Other Income	51		51
Net Income	<u><u>\$ 515</u></u>	<u><u>\$ (718)</u></u>	<u><u>\$ (203)</u></u>

REVENUE REQUIREMENTS

The Commission is of the opinion that the operating ratio⁽¹⁾ is a fair, just and reasonable method for determining revenue requirements in this case. The Commission finds that an operating ratio of 88 percent will allow Woodland to pay its operating expenses, service its debt and provide a reasonable return to its owners. Therefore, the Commission finds that Woodland is entitled to increase its rate to produce total revenue of \$1,765 which will require an increase of \$421 annually.

(1)
$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Taxes}}{\text{Gross Revenue}}$$

OTHER ISSUES

The Woodland sewer system was constructed to serve the Preston Estates Subdivision and was financed by income generated from the sale of houses in the subdivision.⁽¹⁾ In 1980, 1981 and 1982, sewage service was extended to seven customers outside the Preston Estates Service area. These customers were charged the full cost of providing service plus a \$600 hook-up fee per hook-up.⁽²⁾ The hook-up fee has not been approved by the Commission nor included in Woodland's filed tariff, and Woodland's response indicates there is no cost basis for this charge.

Woodland began operation in 1973 prior to Commission jurisdiction over sewer utilities. On January 28, 1975, Woodland's tariff was approved by the Commission authorizing a \$4 per month rate and a late payment penalty of 6.25 percent. Customers were billed a gross amount of \$4.25 with the \$.25 a discount for timely payment. Approximately 5 years ago, Woodland-Preston began charging a \$4.25 rate with no discount.⁽³⁾ The increase in rates was not approved by the Commission.

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- (1) Item No. 1, Response filed November 15, 1982.
(2) Item No. 4 and 7, Response filed December 21, 1982.
(3) Item 5, Response filed December 21, 1982.

SUMMARY

The Commission, after consideration of the evidence of record, finds that:

(1) The rate in Appendix A will produce gross annual operating revenue of \$1,765 and is the fair, just and reasonable rate to be charged in that it will allow Woodland to pay its operating expenses and provide a reasonable surplus for equity growth.

(2) The rate proposed by Woodland should be denied.

(3) A hook-up fee has not been authorized by the Commission and no justification has been presented for such charge; therefore, no further hook-up fees should be charged.

(4) Woodland's change in its approved monthly rate from \$4.00 to \$4.25 is in violation of KRS 278.160. Woodland should be cautioned that it may not charge, demand, collect or receive a greater or lesser compensation for any service rendered than that prescribed by the Commission and found in its approved rate schedules.

IT IS THEREFORE ORDERED that the proposed rate in Woodland's application be and it hereby is denied.

IT IS FURTHER ORDERED that no further hook-up fees shall be charged.

IT IS FURTHER ORDERED that the rate in Appendix A be and it hereby is approved for sewer service rendered by Woodland on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Woodland shall file its revised tariff sheets setting out the rate approved herein and its rules and regulations governing the provisions of service.

Done at Frankfort, Kentucky, this 8th day of February, 1983.

PUBLIC SERVICE COMMISSION

Laura S. Murrell
Chairman

Katherine Randall
Vice Chairman

Kent Carver
Commissioner

ATTEST:

Secretary

APPENDIX

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8651 DATED FEBRUARY 8, 1933

The following rate is hereby prescribed for customers of Woodland-Preston Enterprises, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Customer Category

Rate

Single Family Residential

\$5.25 per month